



NCUA Update

NCUA Board Member
Christiane Gigi Hyland
January 22, 2011



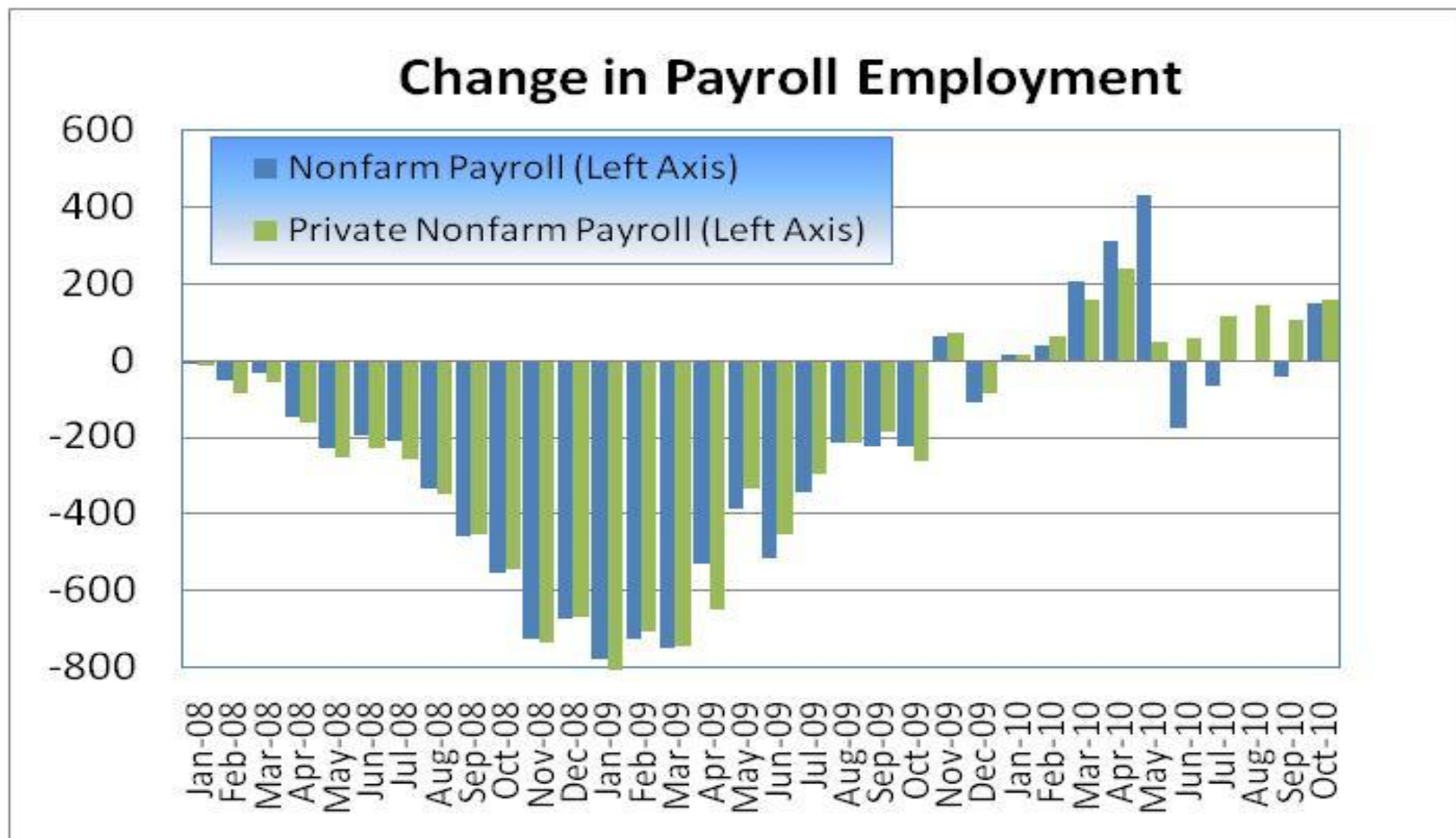
The Paragon Group
Intelligent Solutions

AGENDA

- Review national economic, credit union and National Credit Union Share Insurance Fund (NCUSIF) trends
- Discuss current national regulatory and legislative issues

NATIONAL ECONOMIC TRENDS

Labor Market Contraction



Source: Bureau of Labor Statistics

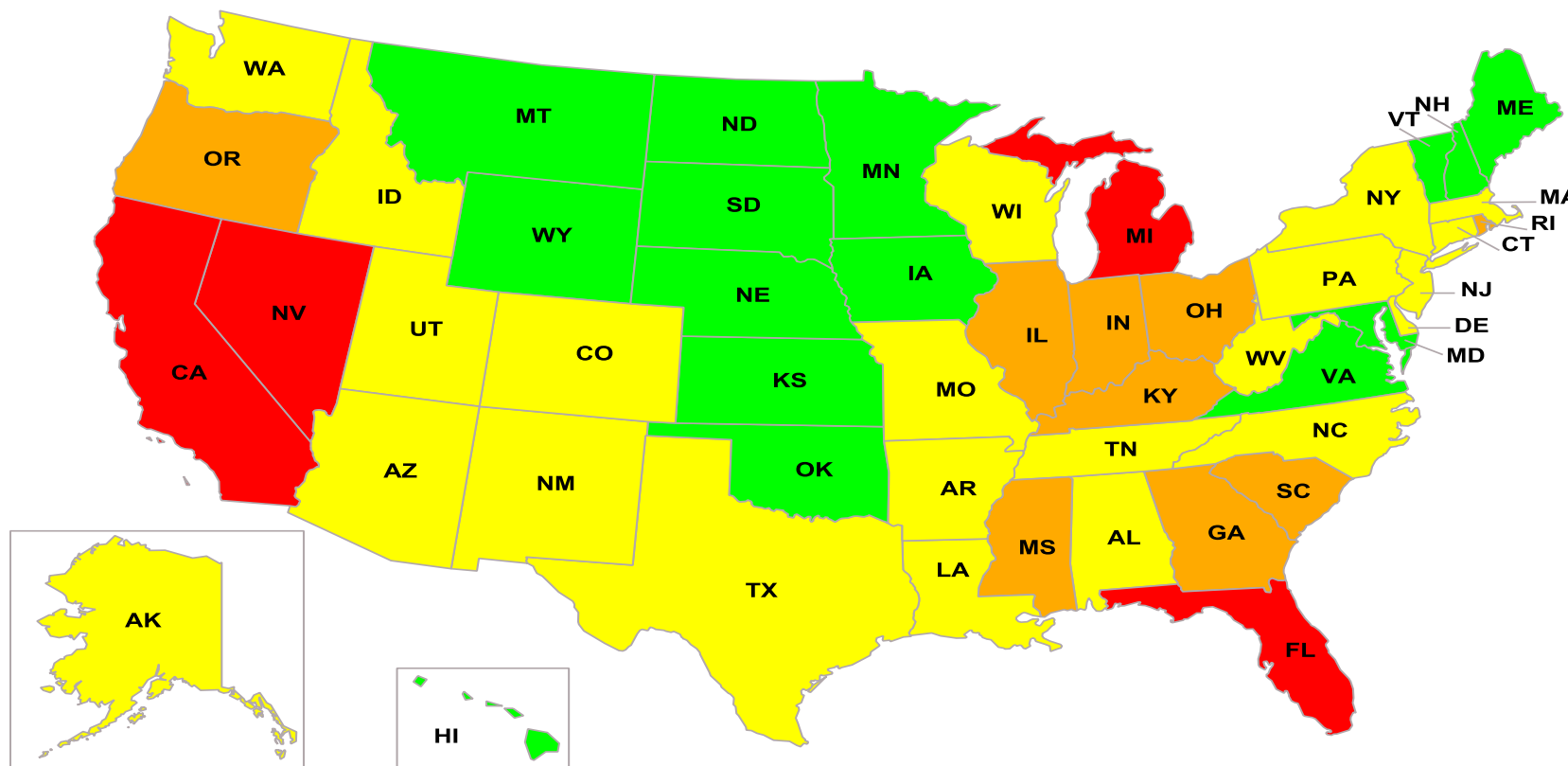
Unemployment Rate



Source: Bureau of Labor Statistics

State Unemployment Rates

State Level Unemployment Rates, October 2010



● Under 7.6 ● 7.6 to 9.6 ● 9.6 to 11.6 ● Over 11.6

Housing Market Collapse

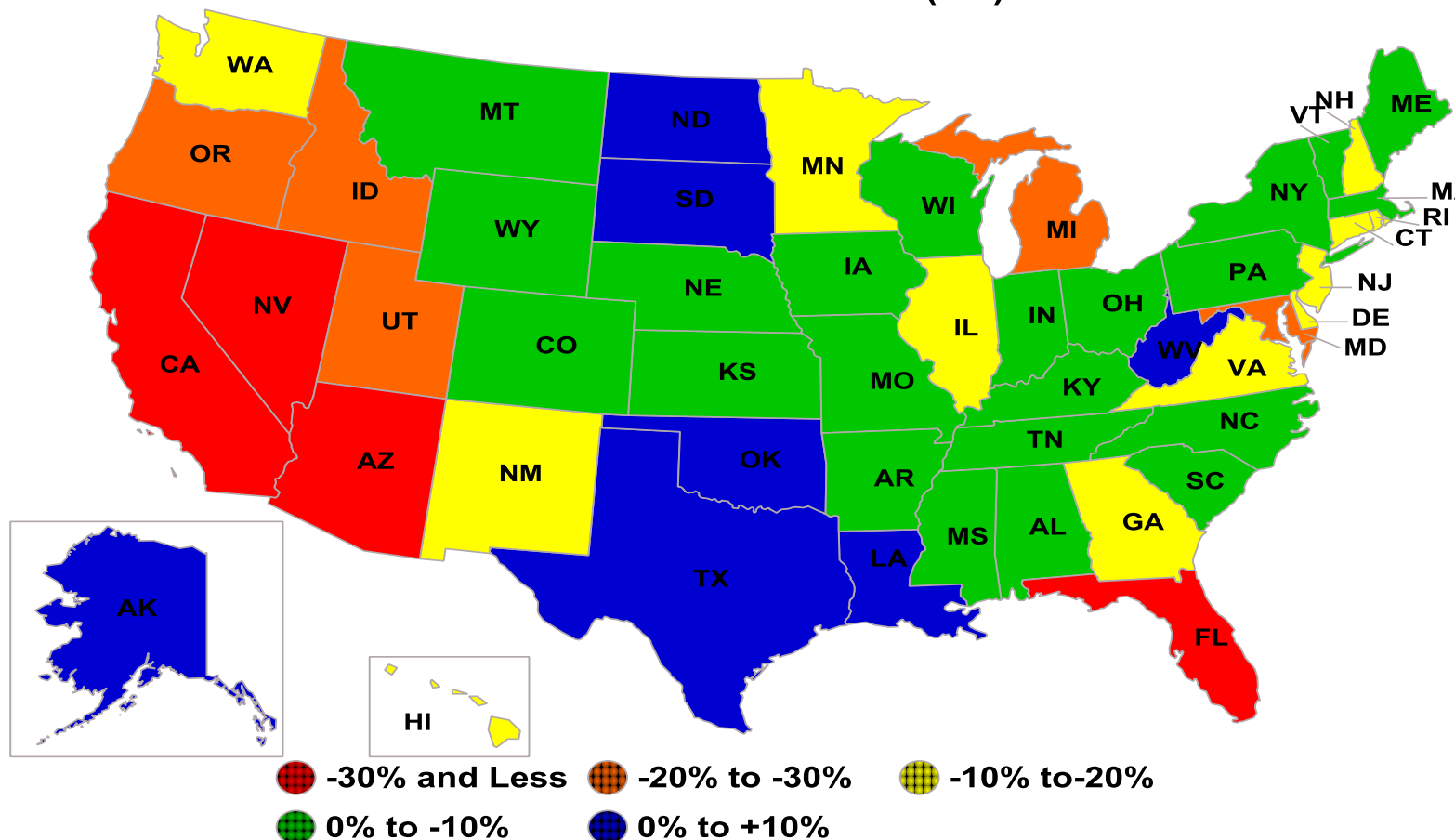


Source: S&P/Case-Schiller® Home Price Index: 20-city composite (NSA) and Federal Housing Finance Agency Purchase-Only Home Price Index (SA).

Housing Market Collapse

Home Price Changes from 2007Q2 to 2010Q3

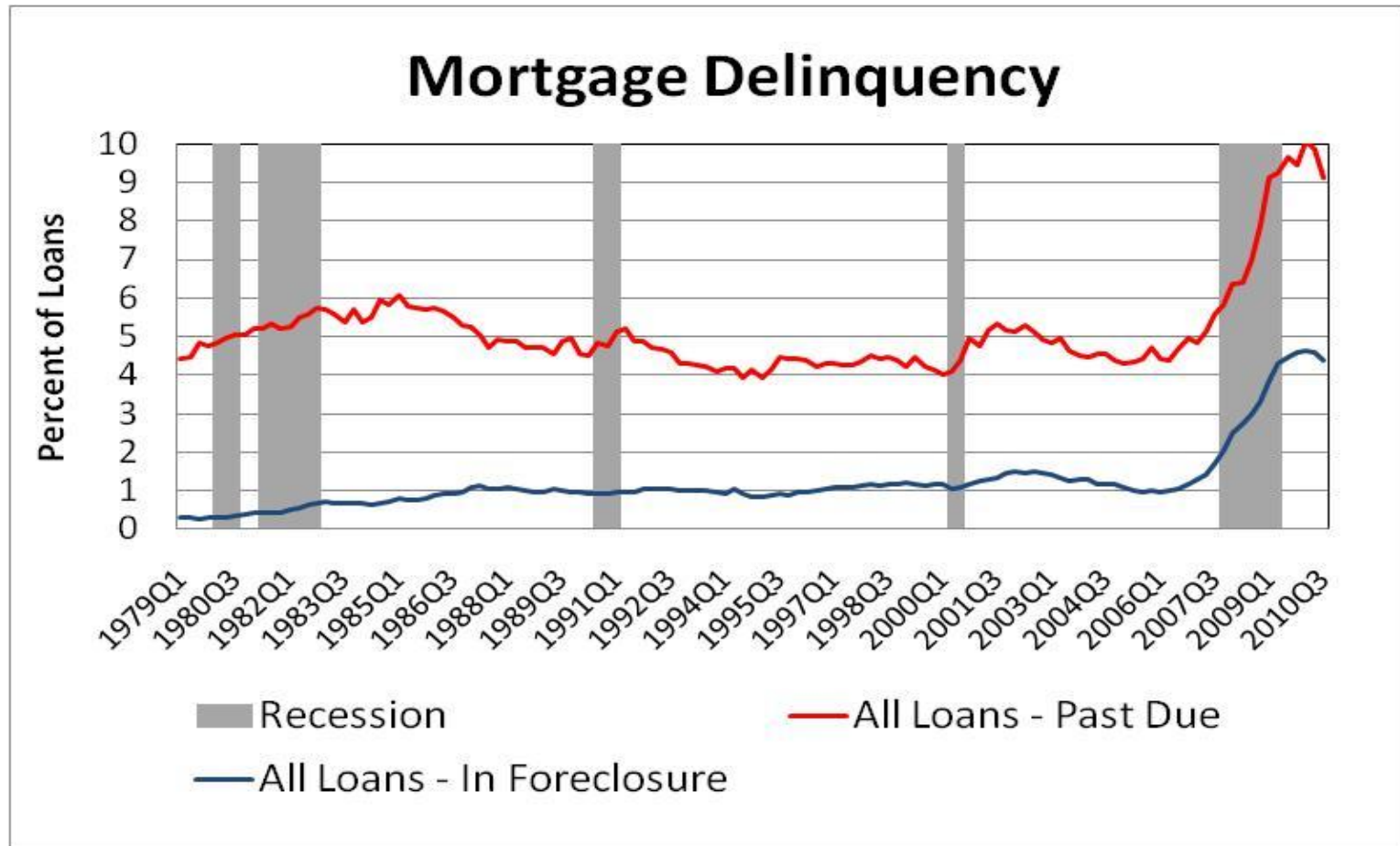
FHFA Home Price Index (SA)



● -30% and Less
 ● -20% to -30%
 ● -10% to -20%
● 0% to -10%
 ● 0% to +10%

Source: Federal Housing Finance Agency

Record High Delinquency

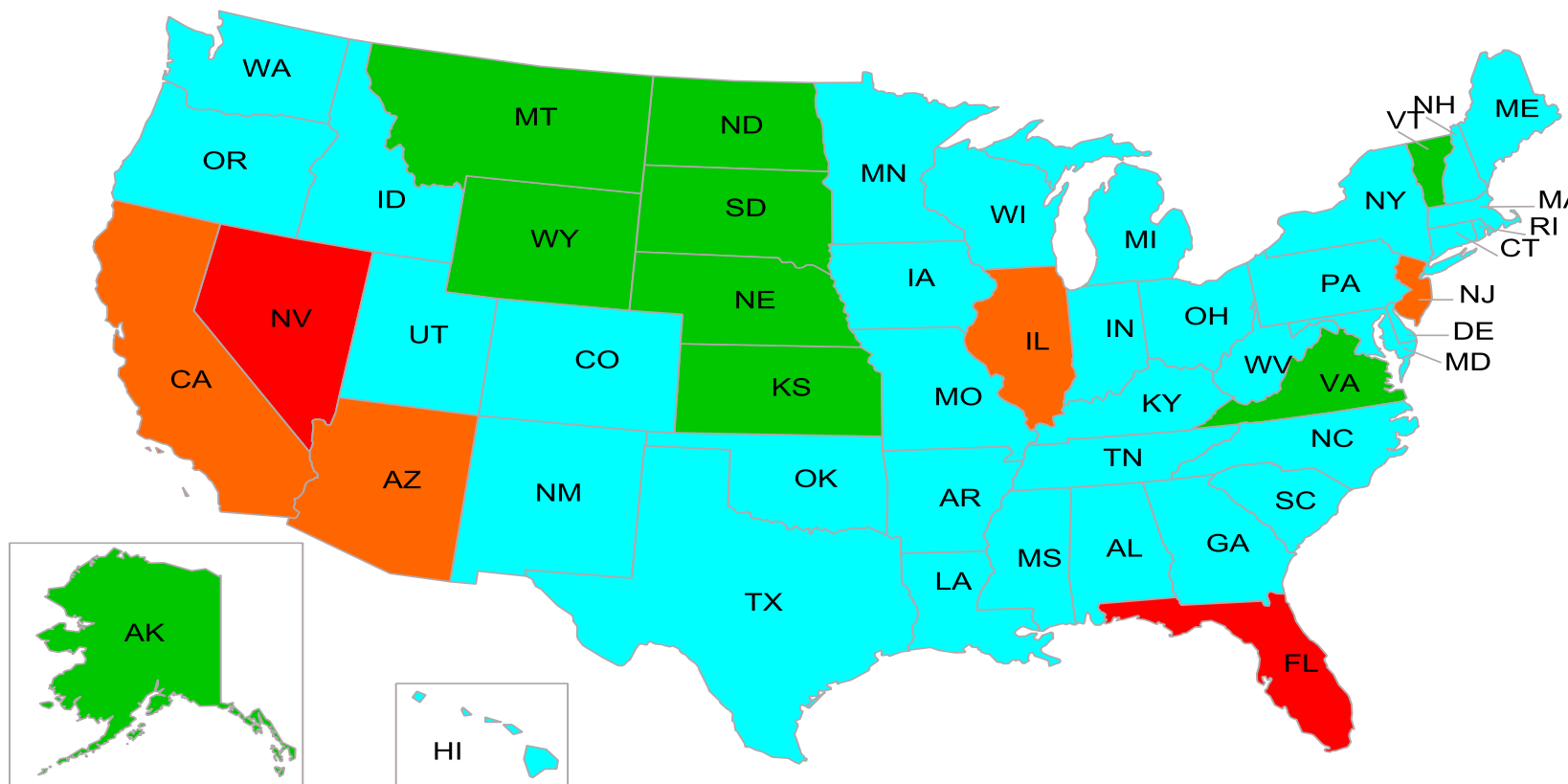


Source: Mortgage Bankers Association

State Delinquency

Seriously Delinquent Loans, 2010Q3

90 days + or in foreclosure process



Less than 5%



5% to 10%



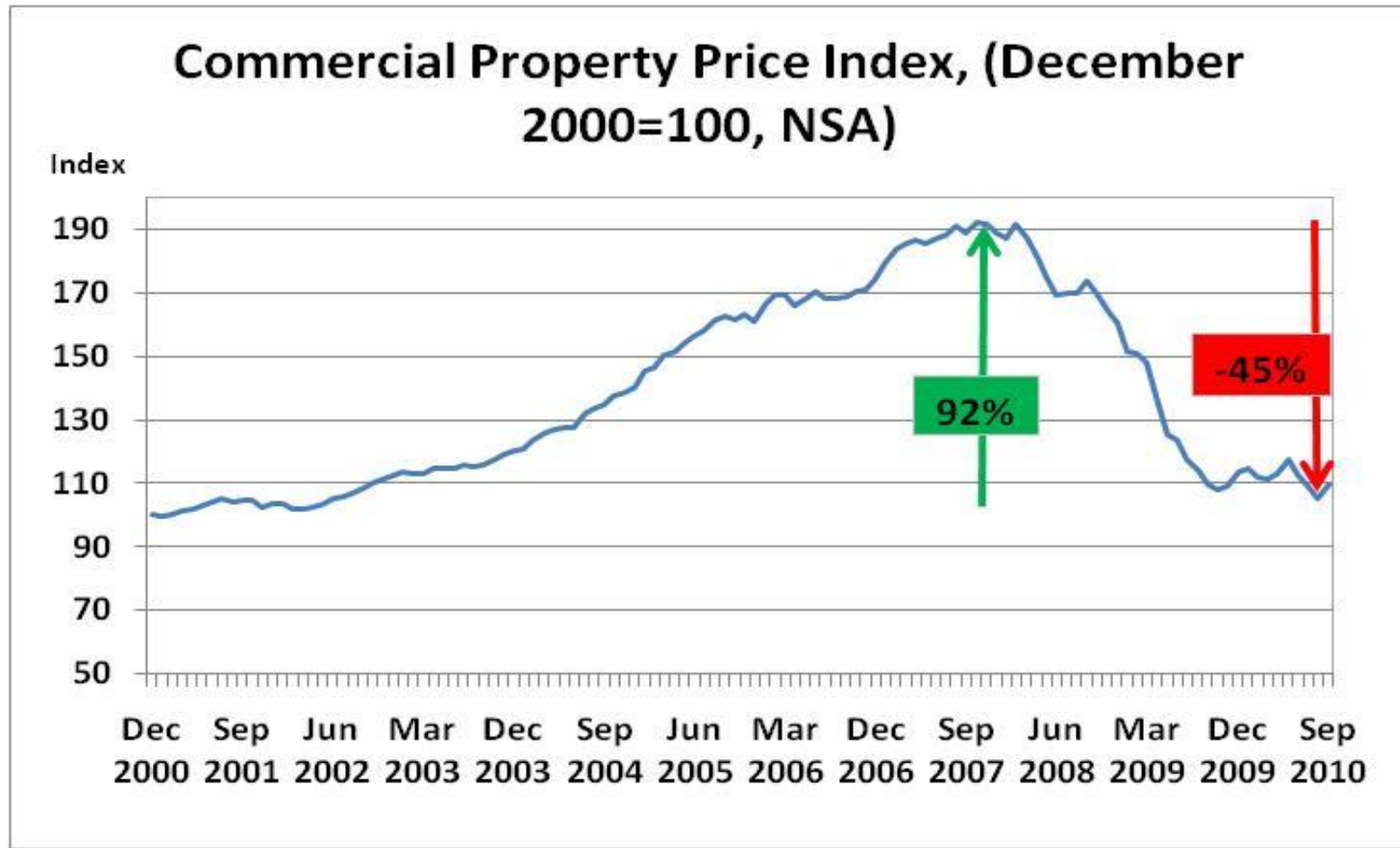
10% to 15%



Over 15%

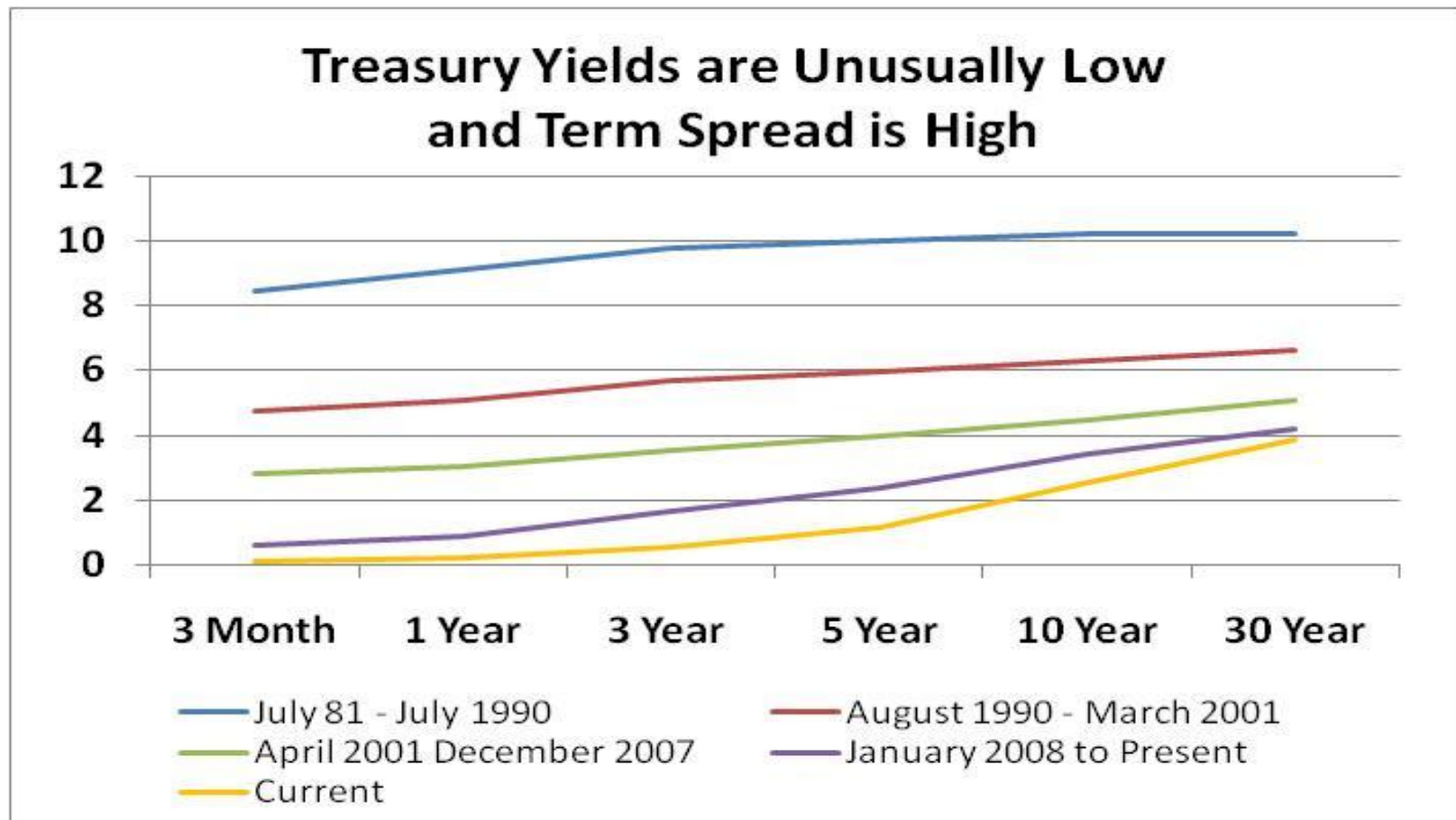
Source: Mortgage Bankers Association

Commercial RE Sales Price Trends



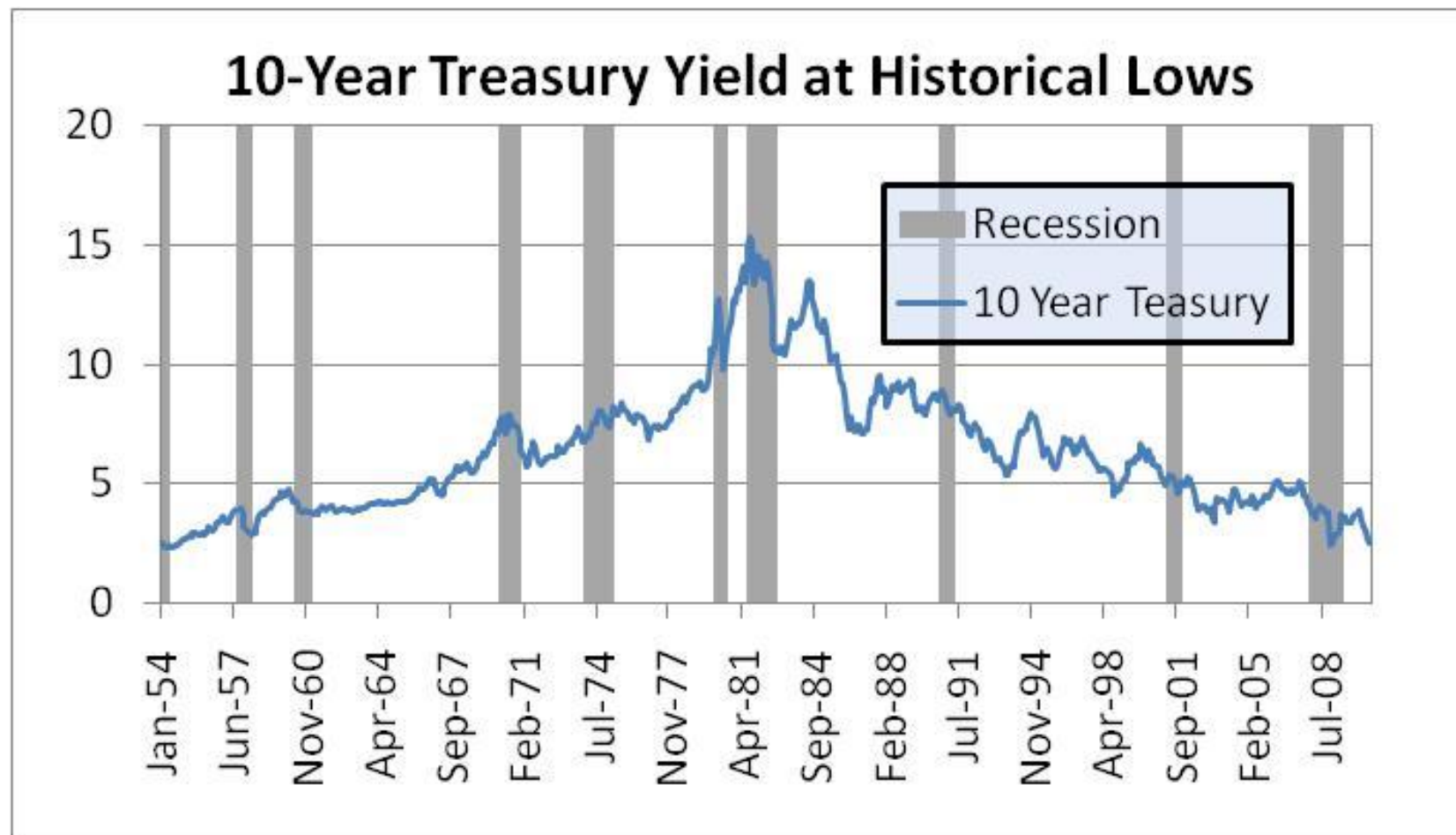
Source: Moody's Investors Service

Interest Rate Risk



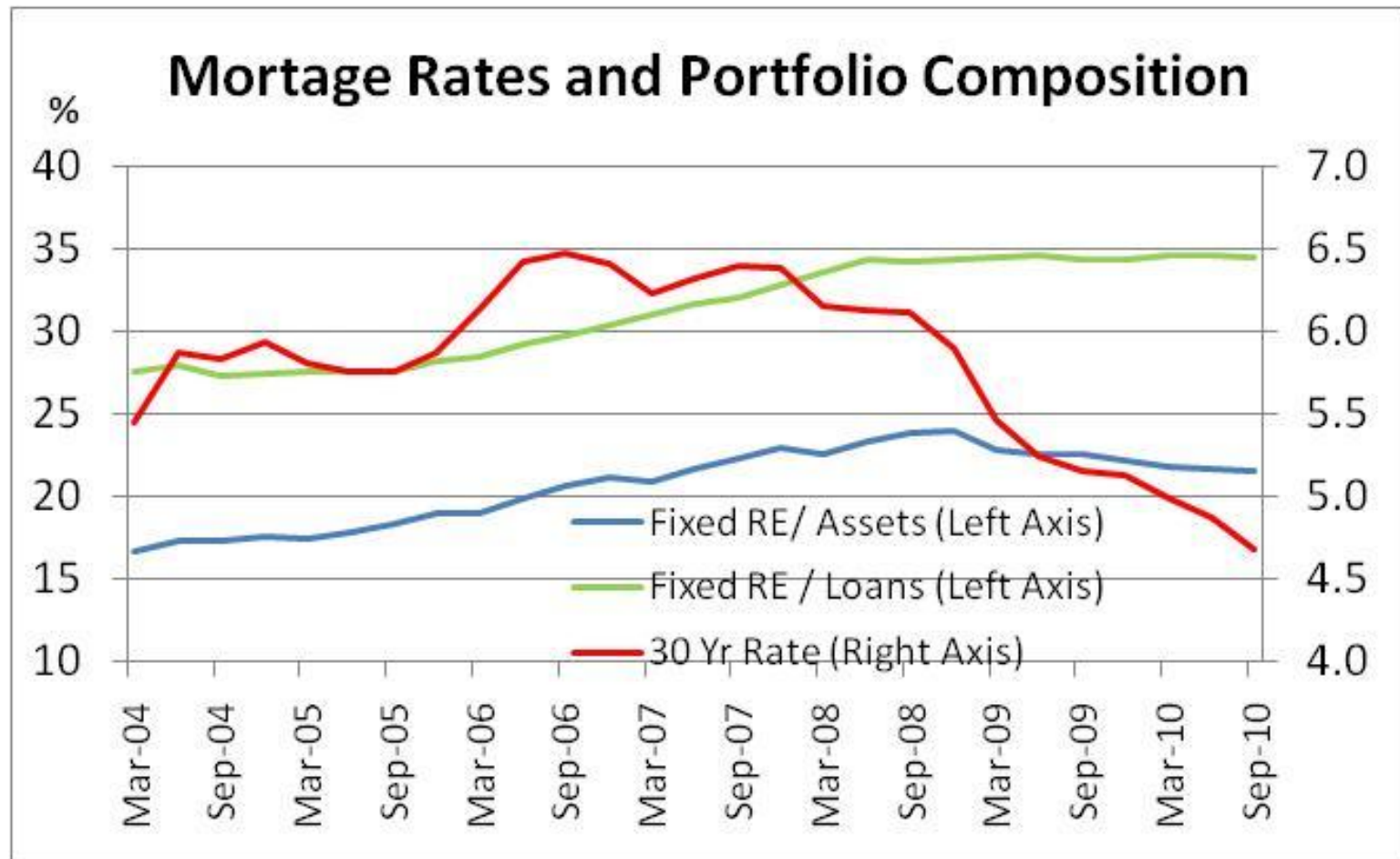
Source: U.S. Treasury

Interest Rate Risk



Source: U.S. Treasury

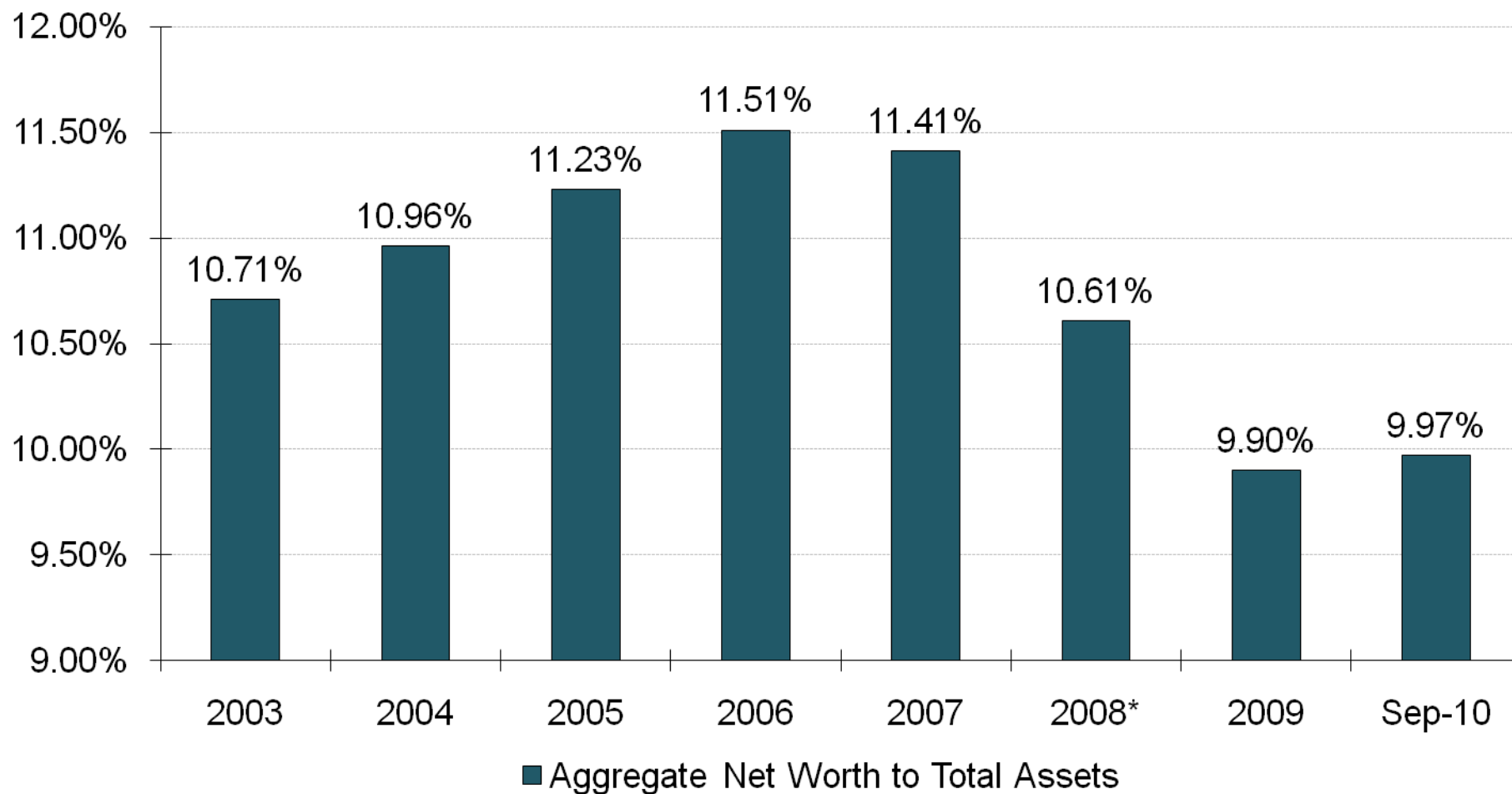
Interest Rate Risk at CUs



Source: Freddie Mac, FPR

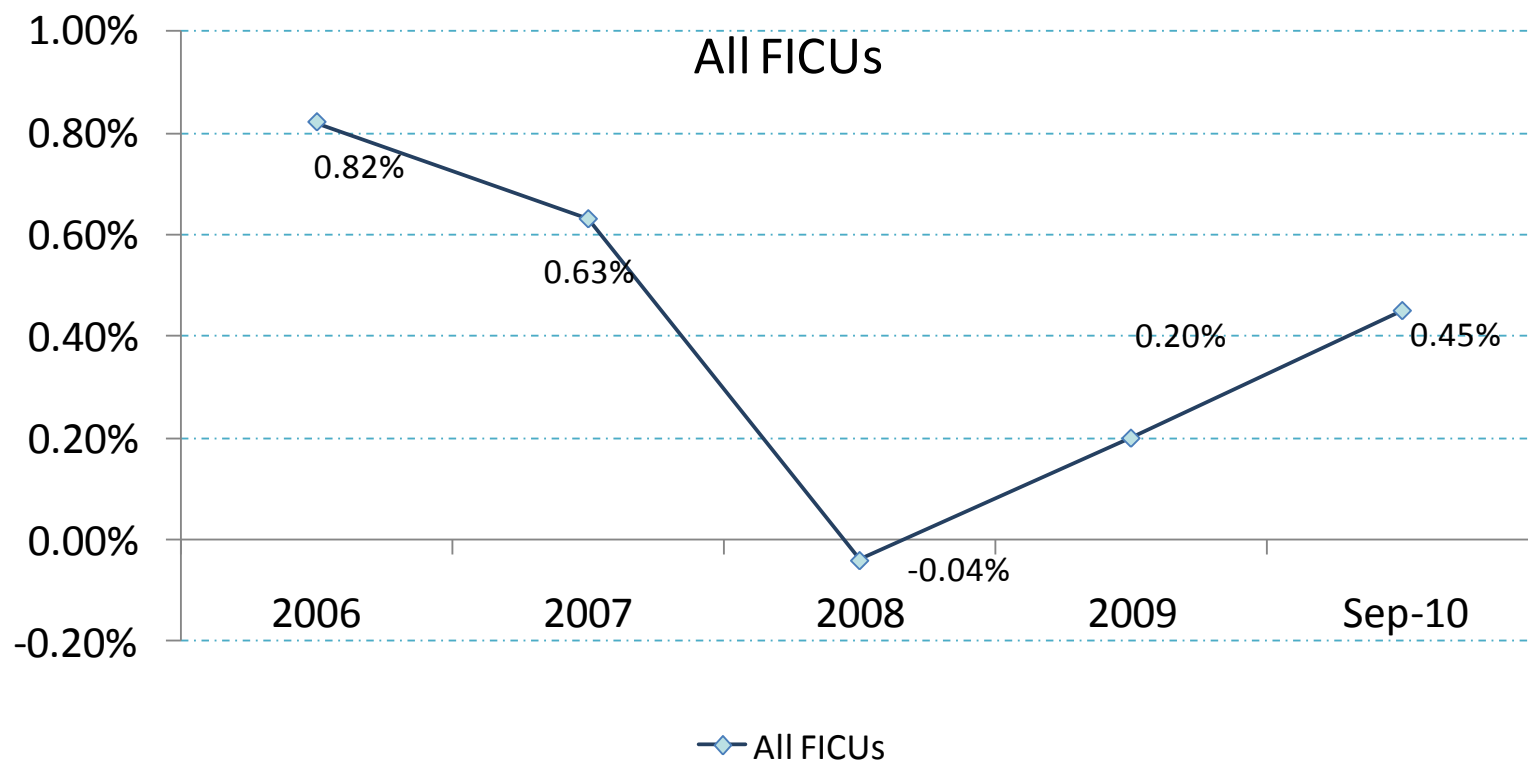
CREDIT UNION TRENDS

Net Worth Ratio

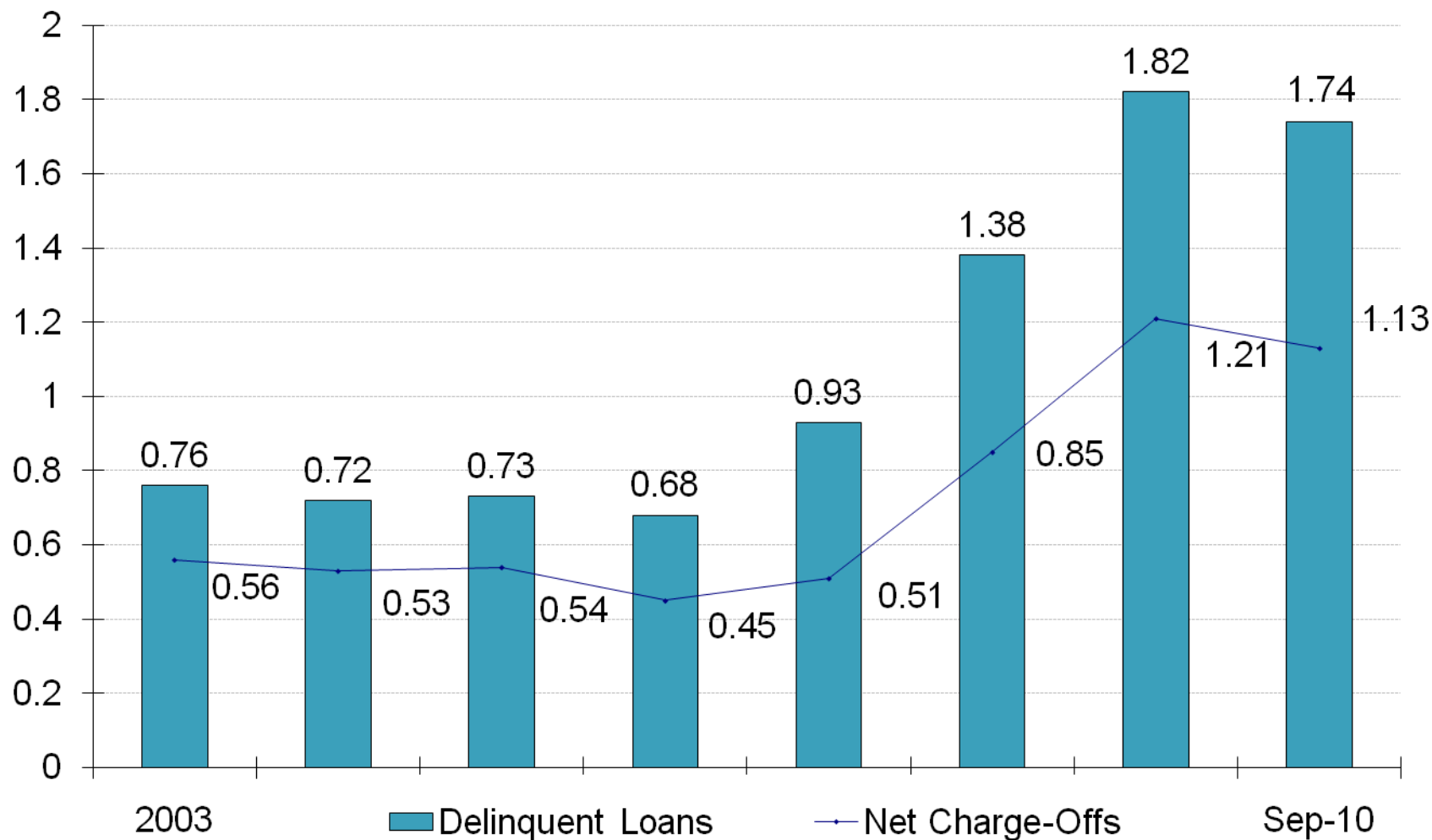


Includes adjustments made after NCUSIF stabilization expense was announced.

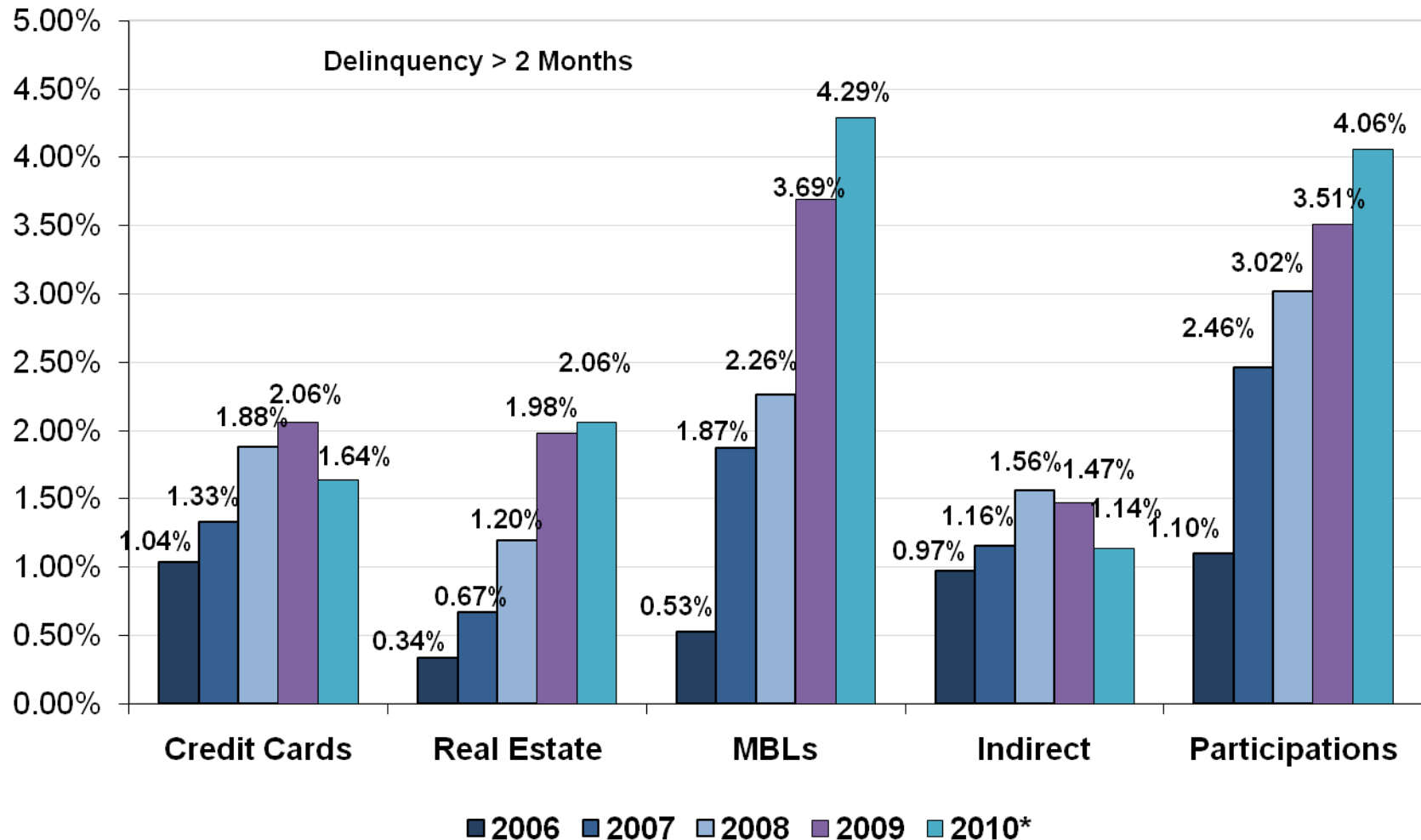
Return on Average Assets (ROA)



Delinquency & Charge-Offs



Delinquency by Type

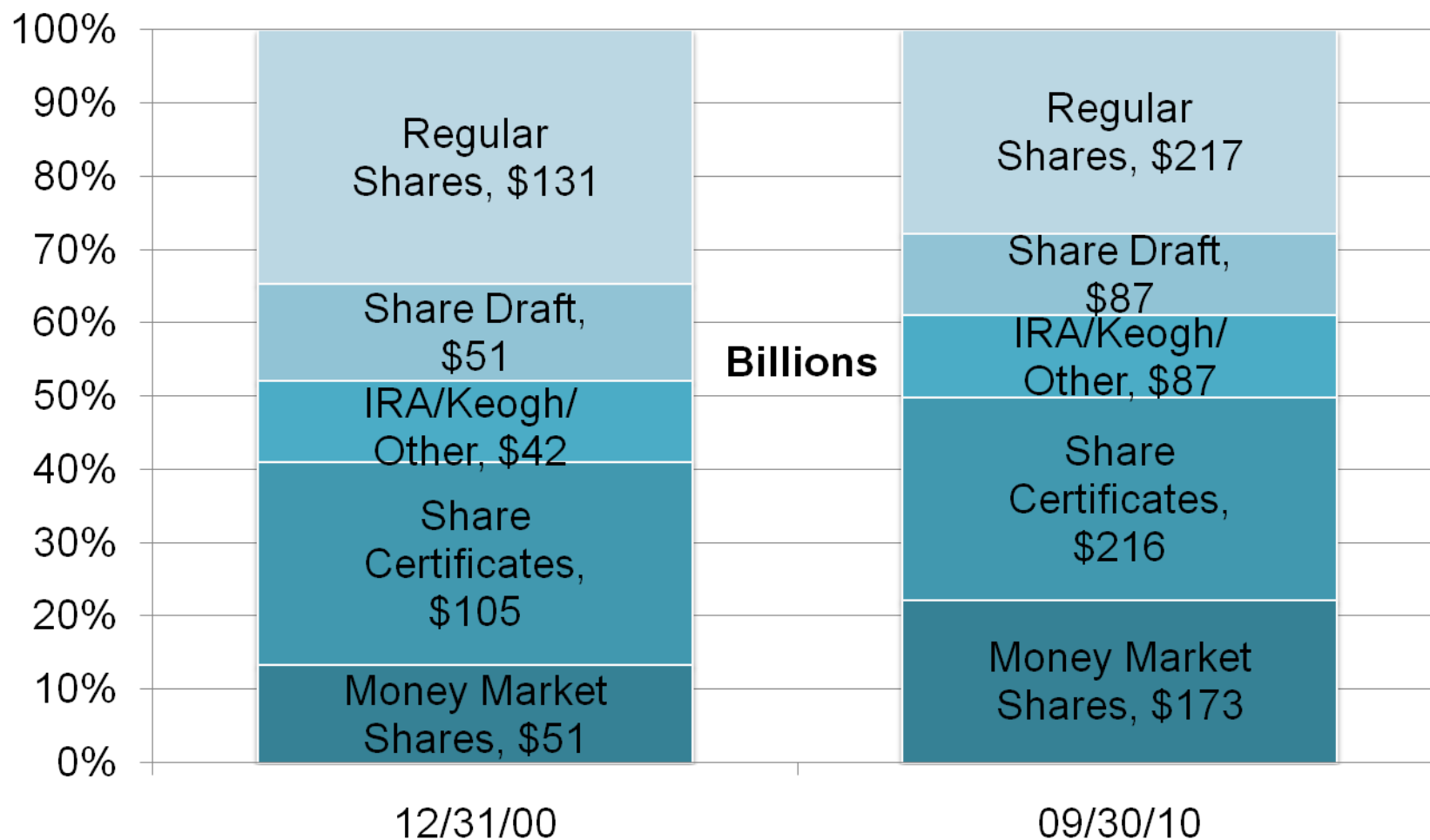


*Based on September 2010 data

2000-2010 Comparison - FICUs

	December 2000	December 2009	September 2010
Number of FICUs	10,316	7,554	7,402
Total Assets	\$438.2 billion	\$884.8 billion	\$907.9 billion
Total Shares	\$379.2 billion	\$752.7 billion	\$779.9billion
Total Loans	\$301.3 billion	\$572.4 billion	\$567.1 billion
Average Asset Size	\$42.5 million	\$117.1 million	\$122.7 million
Net Worth Ratio (Aggregate)	11.43%	9.91%	9.97%

Share Composition



Changing Balance Sheet

	12/31/00	12/31/09	9/30/10
% Real Estate Loans to Total Loans	38.71%	54.07%	54.58%
Net Long-Term Assets to Assets	22.67%	31.50%	31.42%
% of Regular Shares to Total Shares	34.28%	26.54%	26.85%
% of Fee Income to Net Income	64.89%	152.70%*	127.08%*

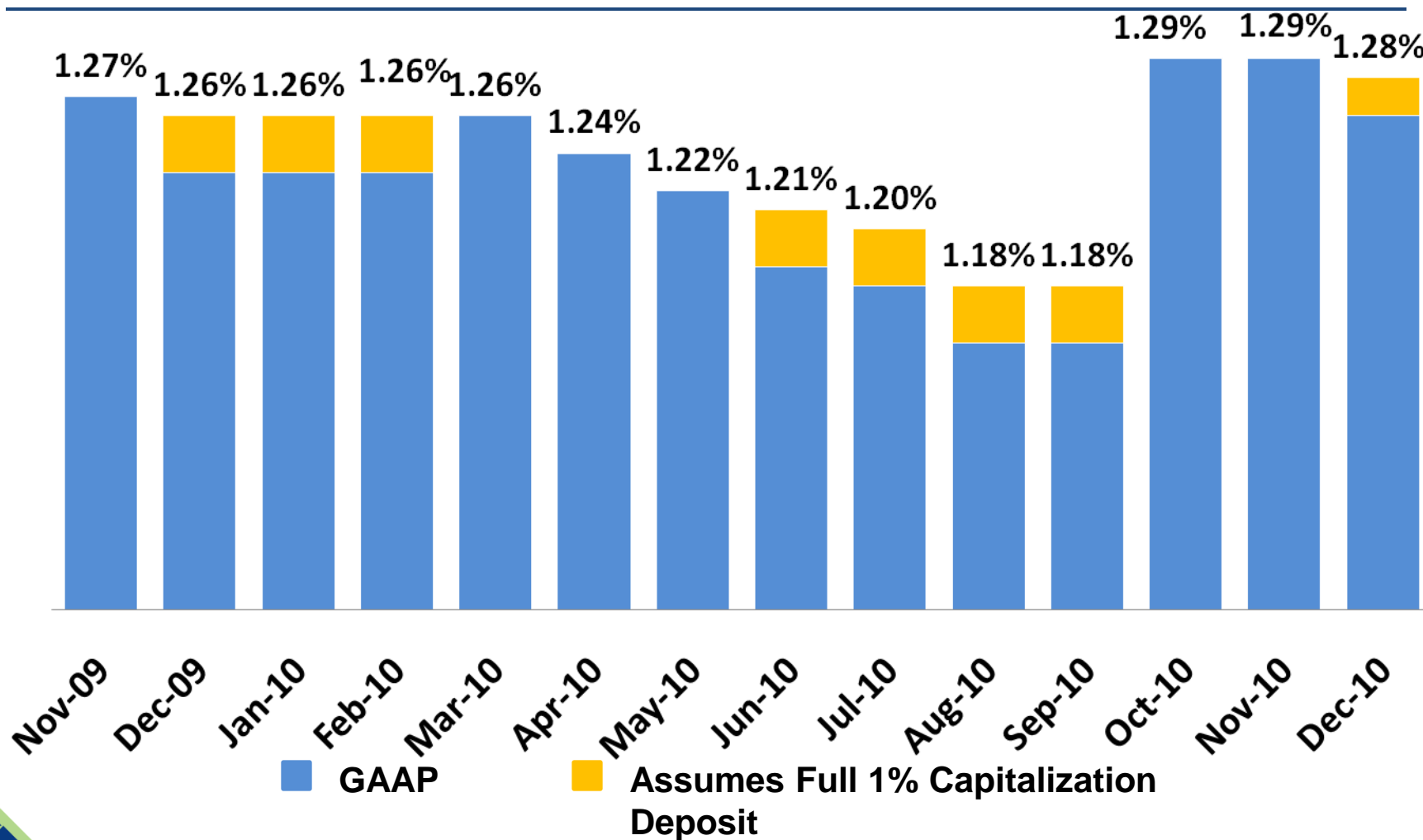
*Net Income without stabilization expense

Concentration Risk in Federally Insured Credit Unions

	Balance 9/30/10
Real Estate Loans	\$310.2 billion
Member Business Loans (MBLs)	\$36.7 billion
Loan Participations	\$12.5 billion
Mortgage-Related Securities	\$66.7 billion

NCUSIF

NCUSIF Equity Ratio



NCUSIF Insurance Loss Expense and Changes to the Reserves

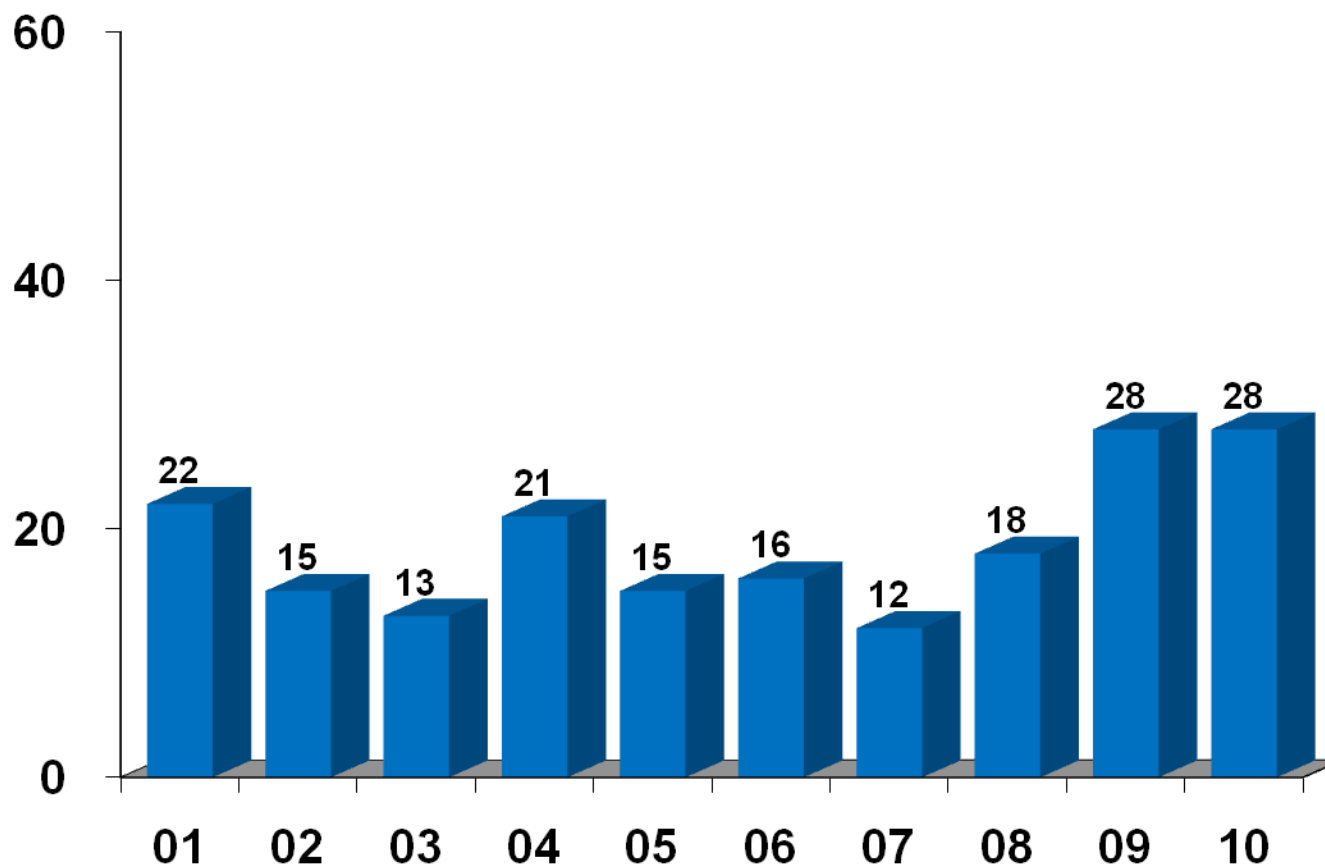
December 31, 2010

Preliminary & Unaudited

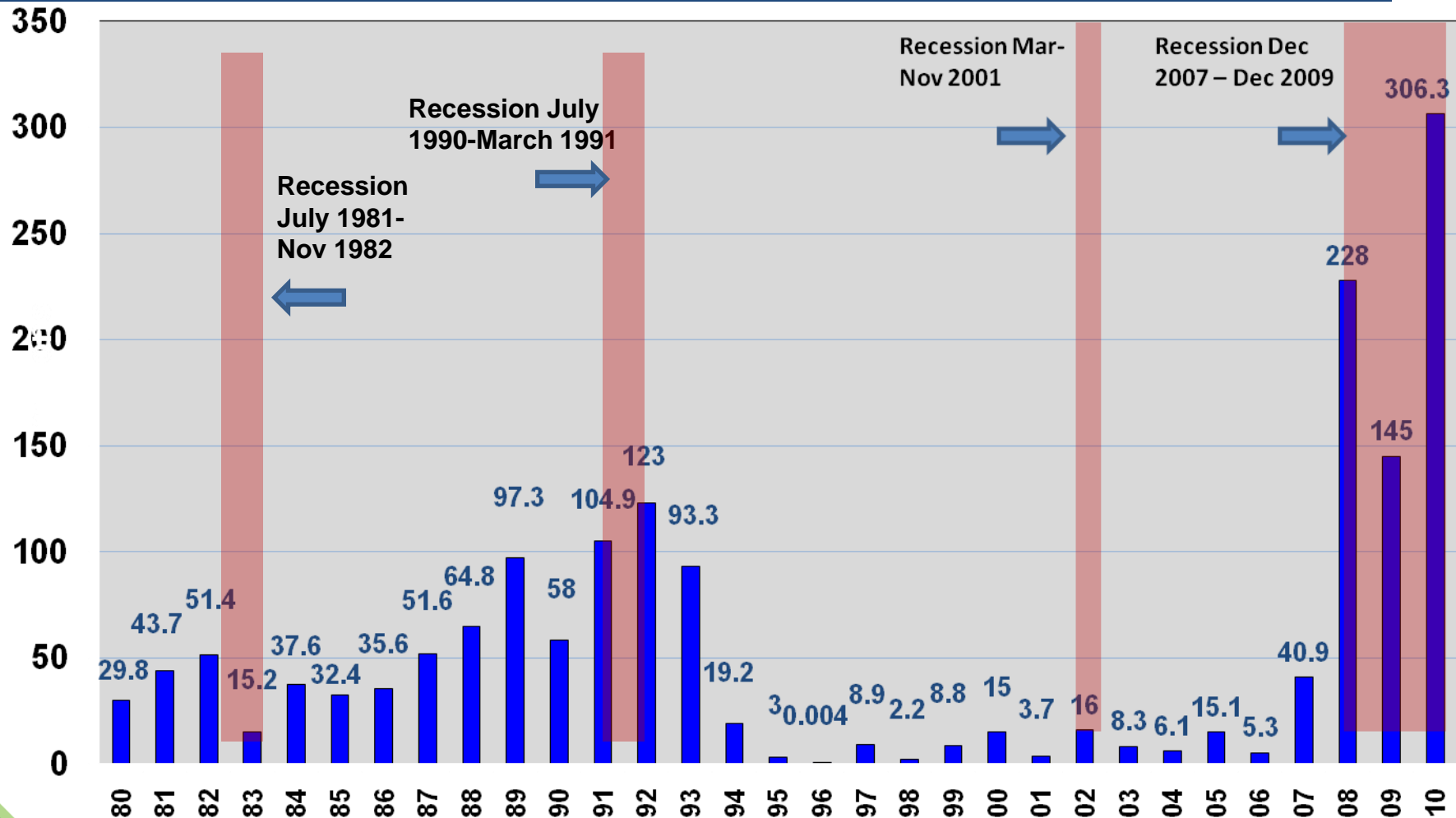
(In Millions)

	Dec.	Year-to-Date
Beginning Reserve Balance	1,212.5	758.7
Insurance Loss Expense – Natural Person CU	54.8	749.1
Recoveries – Natural Person CU	2.3	71.2
Less Charges – Natural Person CU	7.8	317.2
Ending Reserve Balance	1,261.8	1,261.8

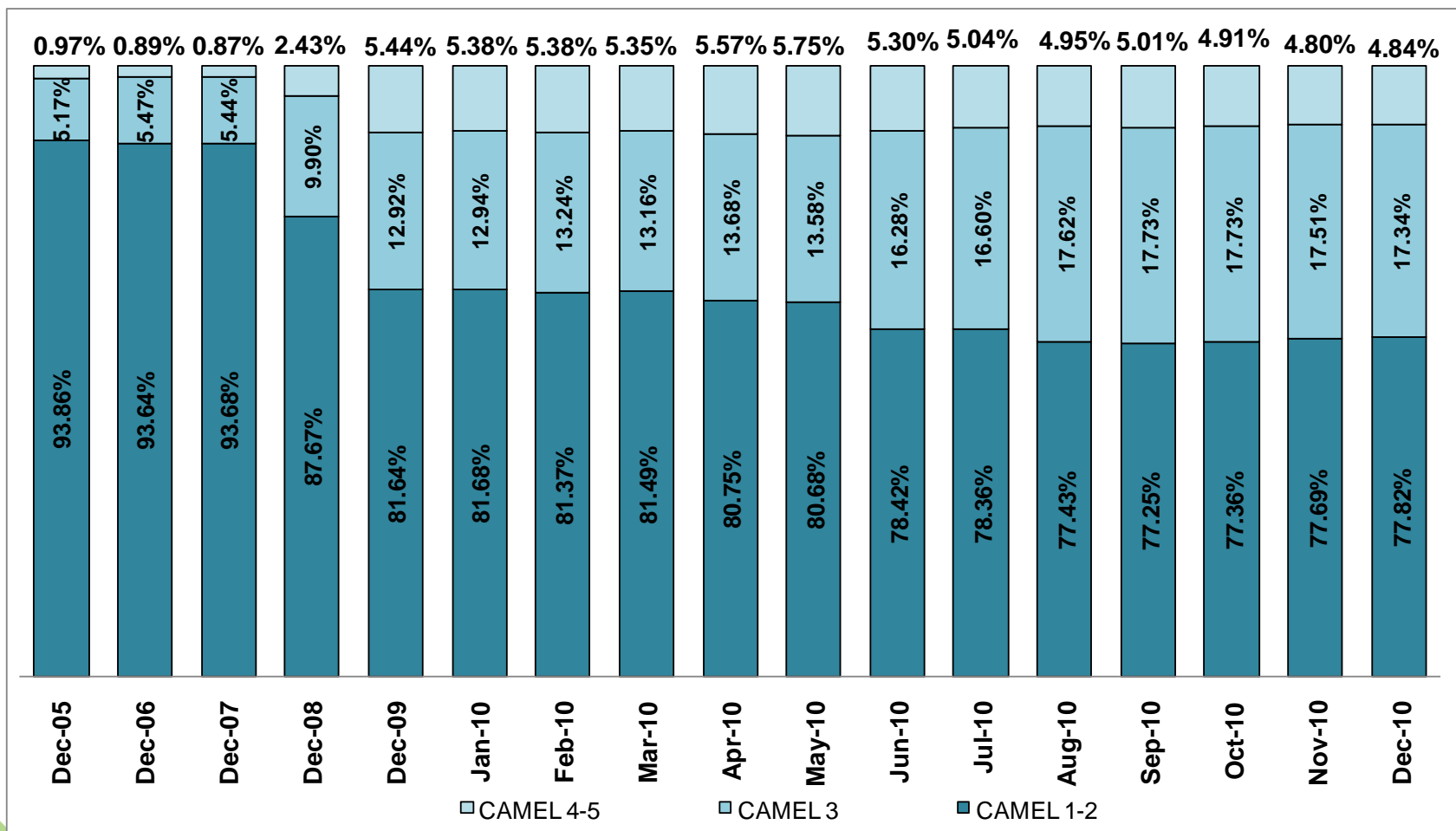
Number of Credit Union Failures FY 01 – FY 10



History of Charges to NCUSIF Reserves



Distribution of Assets in CAMEL Codes



NATIONAL REGULATORY AND LEGISLATIVE ISSUES

Corporate System Resolution

- Launched September 24, 2010. Resolution involves several integrated steps:
 - **Stabilize** system liquidity
 - **Resolve** problem credit unions
 - **Reform** corporate system
- All in the context of keeping the payments system operating seamlessly to the consumer and providing credit unions choice regarding what they want of their corporate system going forward.

Corporate System Resolution

- The integrated steps include:
 - Isolating the impaired securities held by five corporate credit unions;
 - Repackaging the impaired assets into new securities with an NCUA guarantee backed by the unconditional full faith and credit of the United States government;
 - Issuing the new securities to investors on the open market;
 - Transferring the corporates' still-valuable assets to newly created "bridge banks" that will allow for continued operations; and
 - Transitioning operations now under NCUA conservatorship over a target of 24 months to other service providers.

Corporate System Resolution

- 4 corporates in conservatorship with 4 bridge institutions: U.S. Central, WesCorp, Members United and Southwest. Constitution State was liquidated on 11/30/10 with shares and services transferred to Members United Bridge.
- NCUA Guaranteed Notes (NGN)
 - Use the impaired assets (commercial-backed and private label residential mortgage backed securities) of the bridge corporates as collateral.
 - As of 12/31/10, NCUA has completed 60% of the securitization designed to fund deposits assumed by the bridge corporate credit unions.
 - Total proceeds from the 2010 securitizations stand at over \$17.75 billion. NCUA plans to resume NGN offerings in the first quarter of 2011.

Corporate System Resolution

■ Part 704

- Final rule was issued September 29, 2010; the effective date was January 18th.
- Technical amendments were done at the November 2010 NCUA Board meeting; in addition, 7 changes to the rule were proposed. Comments on those changes are due January 28th.
- New capital requirements are effective October 20, 2011.

Corporate System Resolution

■ Assessments

- At the November 2010 NCUA Board meeting, the Board estimated a Corporate Stabilization Fund assessment between 20-25 basis points.
- We are exploring the timing of the assessment to allow for potential amortization over an identified period of time.

■ Corporate Credit Union Capitalization Plans

- Corporates have until March 31, 2011 to submit their plans to NCUA's Office of Corporate Credit Unions

Current Regulatory Issues

- **NCUA Letters to Credit Unions --** Many were issued last year outlining topics such as:
 - Information on NCUA's merger and purchase & assumption (P&A) process including the creation of a merger registry;
 - Concentration risk;
 - Indirect lending and appropriate due diligence – NCUA hosted a webinar in early November to discuss this letter; and most recently,
 - Due diligence considerations in evaluating payments system providers.
- These letters are always a great “heads-up” on what examiners may focus on during examinations.

Current Regulatory Issues

- **Rule on Fiduciary Duties at FCUs; Mergers and Conversions of Insured Credit Unions (12 CFR Parts 701, 708a and 708b) was finalized in December 2010.**
 - A new §701.4 addresses the duties of federal credit union directors in managing the affairs of their credit unions.
 - The rule establishes a federal regulatory standard of care for directors that will help ensure they meet their fiduciary duties to their members, both in general and also when making decisions that affect the fundamental interests of members.

Current Regulatory Issues

- §701.4 of the rule provides an FCU director must:
 - Carry out his or her duties in good faith;
 - In a manner reasonably believed to be in the best interests of the membership of the federal credit union; and
 - With such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.

Current Regulatory Issues

- An FCU director must also:
 - Administer the affairs of the federal credit union fairly and impartially and without discrimination in favor of or against any particular member;
 - Within 6 months, understand the federal credit union's balance sheet and income statement.
 - Those directors seated before January 27, 2011, have until July 27, 2011 to comply.

Current Regulatory Issues

- Other important aspects of the final rule:
 - The rule applies to federal credit unions only, and not to state chartered federally-insured credit unions.
 - The rule discusses the authority and limits of the board's ability to rely on information provided by others. A director is generally entitled to rely on information prepared or presented by employees of the federal credit union or consultants whom the director reasonably believes to be reliable and competent in the functions performed.

Current Regulatory Issues

- §701.33 of the rule is amended to prohibit FCUs from indemnifying officials or employees for liability associated with misconduct that is grossly negligent, reckless, or willful in connection with a decision that adversely affects the fundamental rights of members.
- The credit union may, however, purchase liability insurance and/or advance funds to a director if the director needs the funds to prepare a legal defense and the credit union believes the director will not be found liable.

Current Regulatory Issues

- At its July 2010 meeting, the NCUA board approved a proposed rule on Golden Parachute and Indemnification Payments (12 CFR Parts 741 and 750).
- The proposal is scheduled to be finalized in early 2011.
- The provision on indemnification would affect directors of federally insured credit unions (FICUs)

Current Regulatory Issues

- Specifically, the proposal prohibits FICUs, regardless of their financial condition,
 - from paying or reimbursing an institution affiliated party's (IAP's) legal or other professional expenses
 - incurred in administrative or civil proceedings instituted by NCUA or the appropriate state regulatory authority
 - where the IAP is assessed a civil money penalty, removed from office or made subject to a cease and desist order.

Current Regulatory Issues

- FICUs may purchase, however, reasonable commercial insurance policies or fidelity bonds.
- The proposal also allows for partial indemnification where there is a formal and final adjudication or finding that the IAP has not violated certain laws or regulations or has not engaged in certain unsafe or unsound practices or breaches of fiduciary duty.
- In these instances, indemnification would be permitted for only that portion of the legal or professional expenses attributable to the charges for which there has been a finding in favor of the IAP.

Current Legislative Issues

- The Senate Banking Committee held a "State of the Credit Union Industry" hearing on December 9, 2010.
- NCUA Chairman Debbie Matz was the sole witness.
- The hearing covered the general health of natural-person credit unions, as well as the state of corporate credit unions and the NCUA's actions to restore liquidity.
- Chairman Matz requested 3 technical changes to the Federal Credit Union Act to improve the administration of the NCUSIF and the Stabilization Fund.

Current Legislative Issues

- On January 4th, President Obama signed into law S. 4036, the National Credit Union Stabilization Act.
- The law includes the three technical amendments requested by NCUA.
- These amendments:
 - Clarify the application of an accounting standard that enables NCUA to provide capital assistance to a troubled credit union, thus encouraging merger with a healthy credit union. This change minimizes losses to the NCUSIF and benefits consumers by preserving continued credit union service through merger instead of liquidation.

Current Legislative Issues

- Clarify that the NCUSIF equity ratio is based solely on its own unconsolidated financial statements. This will eliminate any confusion about whether the NCUSIF is required to consolidate statements with the Stabilization Fund or with credit unions under conservatorship.
- Allow NCUA to repay expenditures from the Stabilization Fund without first borrowing from Treasury. This will save NCUA from making additional interest payments, which will reduce the cost of Stabilization Fund assessments to credit unions.

Current Legislative Issues

- Continued push by the industry and trade associations to increase the member business lending (MBL) cap.
- Discussions on how to proceed with legislative efforts to get supplemental/alternative capital for credit unions.
- Similar discussions regarding overall PCA reform
- Likely renewed industry efforts to revisit interchange legislation

Ongoing Challenges for Directors

- Staying abreast of current issues and trends
- Asking the tough questions. You are **not** management's rubber stamp.
- Attracting qualified volunteers with diverse experience to serve on the board.
- Setting a strategic direction for your credit union that assures, as much as possible, the credit union's future sustainability.

THANK YOU

Q&A